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ABSTRACT

This paper discusses the neoclassical and the Marxist traditions in economics and the current treatment of capitalist development in history textbooks. Beginning with an overview of the classical economists, Adam Smith, Thomas Malthus, and David Ricardo, the two traditions in economics are then discussed in terms of: (1) scope and focus of analysis; (2) purpose and usefulness; (3) assumptions about society and social change; (4) assumptions about human motives and behavior; (5) unit of analysis and analytic procedures; (6) the nature of capitalism; (7) capitalist performance; (8) treatment of economic history and noncapitalist societies; and (9) insights useful in the school curriculum. To determine whether textbooks explain capitalist development in terms of science and technology, a U.S. history textbook, "Triumph of the American Nation" (1986) and a world history textbook, "The Human Experience: A World History" (1985) are analyzed. A discussion of capitalist development is virtually absent in both books which accounts for the lack of a connection between technological development and capitalist development in the history curriculum. To ensure that capitalist development is linked to technological development and that the Marxist perspective is included in the study of economics, these suggestions are made: (1) rewriting history textbooks; (2) using labor market history textbooks to supplement current history textbooks; (3) recognizing the limitations of neoclassical economics; and (4) reading how Marxist historians treat the capitalist era. (DJC)

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TWO TRADITIONS IN ECONOMICS: IMPLICATIONS FOR TEACHING U.S. AND WORLD HISTORY

by

Suzanne Helburn

Paper presented at the Annual Meeting of the Social Science Consortium, Inc.
Binghamton, New York
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TWO TRADITIONS IN ECONOMICS:
IMPLICATIONS FOR TEACHING U.S. AND WORLD HISTORY
by Suzanne Helburn, University of Colorado at Denver
for the 1988 Social Science Education Consortium Meetings

This paper will discuss the question: What can economics contribute to the study of European and U.S. history? in my view these courses should help students understand world capitalist development and the emergence of socialist countries in the 20th century. Students should see the world today as a developing world capitalist system rooted in earlier history, conditioning future trends. Students need to understand the major forces for change that will profoundly influence their lives, their options for success and for political participation.

That is, students need to understand what capitalism <u>is</u>. It is not simply a decentralized industrialized market system driven by technological change, which, through the competitive operation of markets, now and forever more guarantees efficient resource allocation. Rather, capitalism is an historical <u>era</u> propelled by capital accumulation, class conflict, and capitalist competition, a continually evolving system which creates the basis for its own supersession.

The evolution of society into a world capitalist system should be a major conceptual strand in school history curricula. Unfortunately, this does not seem to be the case. In the texts I have reviewed, while economic progress in the period from roughly 1000 A.D. is a major theme, it is described in terms of technological and scientific discovery more-or-less unrelated to capitalist development. In fact, all too often, characteristics of capitalist economies are presented as universally valid.

This tendency in history texts to treat capitalist social relations as universals and capitalist institutions as natural may reflect the mainstream neoclassical view in economics which studies capitalism as a static, competitive market system, abstracted from history, from class relations, and from any critical analysis of the fundamental nature of capitalism. Mainstream economics is not concerned about understanding what capitalism <u>is</u>. It is content with the surface level understanding which focuses on market exchange relations, and looks no further into the meaning and implications of capitalism.

Neoclassical economics contributes only indirectly to understanding historical change, because it focuses on decision making within a capitalist system rather than on its historical development. Furthermore, by accepting the fundamental institutions and class relations of capitalism as given, it

treats the conceptual structure created to describe capitalism as universally valid and useful in explaining earlier historical periods and in evaluating problems of third world and communist economic development. Only the heterodox Marxist and institutionalist traditions in economics provide an historical perspective, and only the Marxists try to uncover underlying laws or regularities explaining capitalist development.

This paper develops these themes and contrasts the current treatment of western economic growth in history texts with the treatment possible using a Marxist approach. Section I summarizes the historical development of the neoclassical paradigm and identifies alternative traditions in economics which can be useful in understanding the process of social evolution. Section II compares the neoclassical and Marxist traditions to demonstrate the limited usefulness of neoclassical economics in explaining history as compared to the Marxist tradition. Section III summarizes the approach taken to the history of economic development in one popular U.S. history text (Todd and Curti), and in one world history text (Farah, Karls, and Kortepeter) to illustrate how these books maintain a kind of conspiracy of silence about modern capitalist development. Section IV gives general suggestions about incorporating Marxist insights into U.S. and European history.

I The Maturation of Economics: The Development of the Neoclassical Paradigm

Economics, as a science, was an invention of the capitalist era. Although modern mainstream economics provides little insight into capitalist development, this was the main concern of the classical economists - Adam Smith, Thomas Malthus and David Ricardo - writing in England at the end of the eighteenth and beginning of the nineteenth centuries. The first puzzle these early economists sought to solve was the impact on economic growth of the distribution of income among the major social classes: landlords, capitalists, and wage-workers. They wanted to explain the historical development of "commercial society" and the unique features which promoted economic growth. Adam Smith, the first economist, was also part of the Scottish historical school of moral philosophers. He explained economic progress in terms of the extension of markets which, in turn, increased human productivity through the further development of the division of labor. Smith described social evolution in materialistic terms through his stage theory of historical progress from hunting and gathering societies, to agricultural societies, to commercial societies.

Adam Smith's Wealth of Nations, considered the first systematic and scientific treatise on economics, was written to demonstrate the errors of the mercantilist pamphleteers who argued that wealth generation depended on government intervention in markets to protect monopoly privileges and to maintain a favorable balance of trade. Smith argued that these policies

promoted the interests of merchants but not of the whole society. Writing in 1776 at the early stages of industrial capitalism, he recognized the potential for economic growth created by the new middle class of industrial capitalists. His theory explains the basis for economic growth in commercial society, and solves what he described as "the paradox of commercial society": why it is that, despite the larger disparities in wealth in commercial societies, the poorest people live better than the wealthy in earlier societies.

The clue to economic growth and to the solution of the paradox lay in promoting the interests of industrial capitalists who were revolutionizing the process of production and promoting economic growth. Through the operation of competitive markets these capitalists were lowering prices and destroying older, costlier methods of production. Because of capitalists' natural interest in trade and profit, instead of using their profits as revenue to finance consumption, they saved and invested in stock (means of production and of subsistence for workers) to expand production. This stock or capital accumulation, Smith explained, was the basis for economic growth. Capitalist expansion of production promoted the expansion of the wealth of the nation and improved the subsistence of workers. The proper government policy, therefore, was a <u>laissez faire</u> policy of noninterference in the operation of markets.

The classical economists viewed the economy as a system of reproduction in which goods produced in the previous period became "capital", stocks of goods necessary to provide for production in the current period. Economic growth depended on increasing the stock of products available for production from period to period by investing the surplus from the previous period to expand production in the current period. Capitalist control of the surplus production over and above that necessary to maintain the population was the source of further expansion.

David Ricardo developed the full implications of the classical model of growth, showing the relation between growth and the distribution of income between the three great classes of landlords, capitalists and workers. Because of the classical economists' interest in economic growth, they held to a labor theory of value, the view that commodities represent a portion of the available labor resources of the community and that relative commodity prices reflect the amount of labor time used in producing the different commodities. This permitted them to measure physical growth in output in terms of increased hours of human labor expended, and enabled them to trace the interacting effects of price changes and the distribution of income between rent, profits and wages.

Based on insights from Smith, Ricardo developed the classical economic theory of growth. According to Ricardo, growth depended on investment, which, in turn, depended on capitalist profits (the classical economists reasoned that

landlords did not invest but spent their income unproductively on their own lavish life styles). The surplus or net revenue was distributed to landlords and capitalists and the proportion received by capitalists depended, on the one hand, on wages, and on the other hand, on rents to landlords. Ricardo argued for policies which would maintain high profit rates, and this boiled down to advocating free trade. Free trade would encourage the import of agricultural products, which would depress domestic agricultural prices and reduce the demand for marginal land, thereby reducing the competition for more fertile land which would lower land rent and increase profits.

Marx developed Ricardo's labor theory of value into a theory of exploitation of labor which explains the source of profits, capitalist control of the surplus, and the basis for class conflict in the capitalist mode of production. According to Marx, profits or surplus represent the unpaid labor of workers. In his theory of exploitation, Marx exposed one of the weaknesses of classical economics, which led future economists to abandon it. If labor creates value, then profits represent a kind of rip-off of workers which is nevertheless hidden through the process of market exchange. Capitalists hire workers at the going wage, but once hired, they control the actual labor process and can exact more labor time than they paid for when they hired the workers. Marx's theory of capitalist development grew out of his critique of classical economics which, he considered to be a superficial view, focusing on exchange relations and hiding the true character of production relations where surplus value and exploitation occurred.

Neoclassical economics developed out of the 1870's marginal revolution which finally destroyed the labor theory of value based on objective costs of production. It substituted the utility theory of value which explains relative prices in terms of relative scarcities. These scarcities are based on the subjective utilities or preferences of individuals in the population for work versus leisure, and for consumption versus saving. In the neoclassical view profits are explained as a return for productive services of capital, and income distribution among the population, no longer perceived as belonging to specific classes, is determined by the productivity of factors of production. There is no surplus, because the price of a product equals the cost of production, including profits. All owners of productive factors earn the value of their contribution to production.

Neoclassical economics provides a more acceptable theory of profits. In addition to this function, it is designed to work on a new puzzle: to determine how, given individual endowments and subjective preferences for work and consumption, the market mechanism assures efficient resource allocation and consumer sovereignty. Neoclassical economics takes the existence of capitalism for granted, ignores class relations, and focuses on the exchange relations to develop a theory of prices. The

initial insight about market operation comes from Smith's invisible hand metaphor and then was developed through the hypothetical deductive method, first popularized in economics by Ricardo into a theory of general equilibrium.

The English version of neoclassical economics was developed by Alfred Marshall as a partial equilibrium theory of perfectly competitive industries; his Principles text became the standard text for the first twenty-five years of this century. The Marshallian research program began to break down in the 1920's. Joan Robinson developed the theory of imperfect competition and Pierro Sraffa questioned the marginal productivity theory of income distribution. In the 1930's Keynes rejected the Marshallian microeconomic, perfectly competitive orientation in favor of a macroeconomic theory of a monetary economy which could explain persistent unemployment. In the U.S. American institutionalists like John R. Commons, Wesley Mitchell and Thorstein Veblen down played orthodox economic theory in favor of studying actual competitive behavior and performance of industries and labor markets.

Neoclassical economists fought back and starting in the 1950's revived Leon Walras' insights about the market system as a general equilibrium system and Wilfredo Pareto's insights about the welfare characteristics of the condition of general equilibrium. In the past thirty-five years the theory has developed into a highly abstract and mathematicized theory, and the field of welfare economics has developed to apply cost benefit and general equilibrium analysis to public policy decisions. Furthermore, as early as 1937, John R. Hicks offered a general equilibrium approach to Keynes's <u>General Theory</u> which created the postwar Keynesian/Neoclassical synthesis, but ignored most of Keynes's more profound insights about the operation of capitalist monetary economy. Macro models are now based on micro foundations of general equilibrium. The final refinement of neoclassical macroeconomics is rational expectations theory. This theory demonstrates the impossibility of involuntary unemployment in a market system if economic actors make decisions based on rational expectation about changes in the price level. In this model, individuals will react rationally to shocks in economic activity to assure a dynamic adjustment back to full employment. The cause of inflation and unemployment is found in government and Federal Reserve fiscal and monetary policy.

Meanwhile, as neoclassical theory has been more and more expertly honed for mathematical consistency and for insights into the general equilibrium model, the economics profession has fallen into more and more hot water. While the theory has become a finer and finer ideological instrument for defending the basic goodness of capitalism, it has become more and more irrelevant as a policy tool. Even within the profession there has been rumbling of discontent in very high places. Not only Kenneth Boulding, who has always been considered a renegade, but Nobel Price winners Wasily Leontief and Robert Solow have admitted to

serious problems in the discipline. In England, Keynes's Cambridge colleagues kept alive his concerns and also resurrected the classical economics program to develop versions of neoKeynesian and neoRicardian theories of economic growth and development. In the U.S. Hyman Minsky and Paul Davidson, among others developed Keynes's insights about the financial instability of capitalism into a PostKeynesian school of thought. Following the Vietnam years of protest there was a resurgence of Marxist economics, which has now branched into several interesting areas.

Despite the rival traditions in economics, neoclassical economics has been firmly established as the discipline paradigm, the theory which is taught to students at all levels. Heterodox traditions somehow stay alive and even progress through the development of their own journals and their own old boy networks. In some areas such as labor economics, institutionalists and Marxists have even gained respect and have influenced mainstream theory. It is important for social studies professionals to recognize the possibilities available in heterodox traditions in economics. Social studies curriculum writers would be well advised to shop around for help outside the mainstream orthodoxy, particularly to provide an understanding of economic history.

II Two Traditions in Economics: Neoclassical and Marxist Perspectives

This section summarizes major features of neoclassical and Marxist approaches to economics. To facilitate comparison I use the same classification system to describe each tradition.

Neoclassical Economics

Scope and Focus of Analysis.

Neoclassical economics focuses on exchange decisions and their effects on price determination, market competition, resource allocation, macroeconomic stability and growth. It has been defined as the study of the allocation of scarce resources among competing ends (Lionel Robbins), as the "study of mankind in the ordinary business of life" (Alfred Marshall), and as the science of rational choice (J. M. Keynes). Although the emphasis has always been on the analysis of advanced capitalist economies, neoclassical economists consider their approach a universally valid method, applicable to economic decisions in any social formation.

Purpose and Usefulness.

Neoclassical economics serves at least three important functions. First, it explains the operation of a market system as a self correcting system which operates to adjust supply of

scarce commodities to demand, thereby serving the ideological function of justifying market capitalism to the system participants, regardless of their socio-economic status in the system. Second, as the science of rational choice, it serves a training function for participants in a market system by providing a tool box of techniques for solving problems related to constrained maximization. Third, it is a field of public policy analysis in which economists engage in theoretical and empirical research to learn enough about the functioning of markets and the macroeconomy to determine the need and type of public intervention.

Assumptions about Society and Social Change.

Neoclassical economists tend to look at social organization from an economic perspective, so that they picture society as a system of exchanges between individuals, who have some freedom of choice. Economists think all societies are constrained by scarcity and people are constrained in pursuing their own desires by the existence of some division of labor. Nevertheless, they see people in all societies as individuals, free to choose among alternative courses of actions, and actively engaged in so choosing. More importantly, neoclassical economists are prepared to take their decision making approach beyond economic relations to any social relation requiring decisions about exchanges: e.g., decisions regarding marriage, religious choice, childbearing. Finally, neoclassical economists consider rational economic choice making by individuals a feature of all social formations; that is, they see their project as relevant to all societies and their basic categories of analysis as universally valid constructs.

Assumptions about Human Motives and Behavior

In this approach human action is assumed to be based on a utilitarian psychology and ethics: (1) on a hedonist psychology, which asserts that individuals are egoistic hedonists seeking their own pleasure and avoiding pain to themselves; (2) on a hedonist view of ethics, that pleasure is good and pain evil; (3) on a consequentialist morality, that those actions are rational and good as a means which maximize one's pleasure and minimize one's pain, taking into consideration the total present and future effects. Thus, as economic agents, individuals are also acting morally when, motivated by pecuniary self-interest, they behave as constrained maximizers, reacting rationally to make the best choice, given their preferences and endowments, and given market conditions. The ethical position underlying neoclassical economics is that what is desired is desirable, and actions are rational which result in the greatest satisfaction for the individual. This requires people to become calculators of maximum benefits and minimal losses, to become purposive in all their choices. Economic literacy, training in becoming more calculating, is a way to the good, and questions of morality are reduced to economic problem solving. Neoclassical economists

believe that this morality is universally valid.

Unit of Analysis and Analytic Procedures.

Neoclassical economists use the hypothetical deductive method of theorizing based on the principle of methodological individualism. The unit of analysis is the individual, and all concepts of the whole are based on aggregates of individual decisions. All economic theory in the neoclassical tradition starts with assumptions, which are either assertions or derived introspectively, of rational economic behavior of individuals. In microeconomics, theoretical problems are set up as problems in constrained maximization with single exit (unique) solutions to permit the application of the calculus. Macroeconomic models are developed from microeconomic foundations; that is, they are multiple equation models of the functioning of the whole economy in which each equation in the system is derived by aggregating individual behavior.

Theory is tested through econometric estimation of theoretical models. Economists accept falsification as the criterion for corroboration of theory, but usually take a conventionalist view of the inadequacy of the specific empirical refutations. In addition to theory testing, there is a rich tradition of empirical descriptive research in economics used in forecasting and other applied pursuits.

The Nature of Capitalism

Neoclassical economists abstract from the main features of capitalism as an historic epoch, as a system of class domination, and as a world capitalist system, and emphasize the commercial features of society, the market system of exchanges. Economists see this system in terms of the invisible hand metaphor first employed by Smith, a decentralized system, but a mechanism which promotes economic growth and efficient resource allocation. Through the operation of a decentralized, competitive market system, individual market participants, seeking to maximize their own gain, in fact promote the welfare of society as a whole.

At the macro level neoclassical economists see the economy as a circular flow system between families who own factors of production and demand final consumer goods, and firms which produce commodities for sale and make investment decisions. Capitalism involves growth, because some people are induced by earnings on their assets to save current income which is then made available through the banking system to businesses for investment in new industrial capacity.

Commercial society assures growth and thereby solves the age-old problem of jurisprudence of adjudicating between the private property rights of owners of wealth, and the human rights of the common people to survival and an adequate subsistence. By promoting growth, the market system also improves the living

standards of workers, creating a harmony of interests among workers and property owners.

The system automatically allocates resources to conform to consumer demand, which is based on these same individuals' decisions about contributing productive services. All factor owners earn an income based on their contribution to production; in particular, profits are based on the productive contribution of capital.

The existence of unequal "endowments" - human and physical capital, and liquid assets - is taken for granted and accepted as a fact of life.Nevertheless, market exchange not only encourages increased productivity through specialization, it also assures equity and a harmony of interests since the buyer and seller in any exchange voluntarily exchange property, and each party considers her/himself better off after the trade.

The neoclassical paradigm asserts that real world economies are basically competitive so that the theory of perfect competition gives a reasonable description of real life. Furthermore, there is enough stability in the real world to ignore problems of a market economy related to the existence of uncertainty and lack of information about the future. In other words, money can be treated primarily as a medium of exchange and speculative excesses can be ignored.

Capitalist Performance.

Neoclassical economists see competitive market systems as self adjusting, changing in response to changes in demand and supply conditions through the operation of competition and the dynamic adjustment processes instigated when individual rational decision makers seek to maximize their own situation. Given the preferences and endowments of each individual, each person engages in market activity to maximize her/his satisfaction. The general equilibrium solution which balances supply and demand in all markets also represents an optimum welfare situation, given the preferences and endowments of the individual market participants. It represents a Pareto-optimal solution, which means that no further trading will benefit any individual without harming another participant. The system provides for maximum individual welfare in this sense.

Neoclassical economists recognize the existence of market imperfection which require government intervention to promote more efficient/equitable resource allocation. These include the existence of externalities, public goods, monopolies, people with inadequate endowments. Neoclassical economists also recognize the existence of macro instability in the economy, but are in disagreement about the causes of the instability, therefore about the merit of government intervention in the form of discretionary monetary and fiscal policy to promote full employment, stable prices, and growth. Keynesians consider instability endemic and

favor discretionary policy. Conservatives believe government discretionary action is the main cause of instability and favor fixed increases in the money supply and a balanced federal budget.

Treatment of Economic History and Noncapitalist Societies

Neoclassical economists view other social formations from their perspective as advocates of capitalist economic organization, and from their focal viewpoint of the prevalent mode of economic decision making in the society. Given their emphasis on efficient resource allocation, where efficiency is defined in utilitarian terms described above, they tend to find other forms of economic organization as inferior to market economies. They perceive the problem facing communist economies as that of introducing an effective market mechanism; the problem of third world economies is one of economic growth which requires strengthening market incentives and encouraging investment.

An ambiguity in neoclassical economics arises because the subject of study is described as a market economy rather than capitalism. As mentioned above, the focus of analysis is economic choice and their effects on resource allocation. Neoclassical economists consider their categories of analysis as universals - e.g, price, land, labor, capital, etc.- useful in analyzing all forms of economic organization. They categorize economies according to an ahistoric typology based on the prevailing form of decision making, distinguishing between traditional, command, market and mixed economies. The distinction between developed and third world economies is not based so much on historical core-periphery considerations, but on the maturity and importance of market institutions to resource allocation. Third world economic problems are viewed as problems of growth rather than development. Implicit is a particular way of promoting third world development - through investment controlled mainly by capitalists, either foreign or indigenous to the society. They do not address historical and cultural peculiarities of the society, but impose a more-or-less standard prescription of imposing capitalist control and encouraging the development of capitalist property relations as the most efficient and natural process of development.

Neoclassical economists have developed specialty fields in economic development and comparative economic systems, but these fields are no longer very fashionable. At least economic development economists have admitted their limited usefulness, as the field becomes infiltrated with anthropologists and geographers with a broader understanding of the development process.

Insights useful in the School Curriculum

A major function of neoclassical economics is ideological, therefore, pedagogical. The high theory in the discipline

demonstrates the efficiency and social welfare benefits of a profit-oriented market economy, and the empirical research demonstrates that, for instance, the U.S. economy approximates the operation of the theoretical models. Secondly, the tools of analysis in economics can be used to train people to do a better job of looking out after their own interests. These two aspects of economics - the beliefs about the operation of the market system, and the decision making tools developed by economists - are the basis for developing economic literacy in public school curricula. The basic lessons to be learned include:

1. the self correcting nature of market economies in responding to supply and demand, promoting efficient resource allocation in conformity to individual consumer wants.

2. the importance and ethical value of the profit motive and pursuit of individual pecuniary interest.

3. the basic equity of unequal income distribution.

4. the importance of trade-off thinking, the value to individuals and to society of teaching students to learn the techniques of constrained optimization.

5. the importance of capitalists and entrepreneurs in promoting growth and prosperity.

6. the importance of economic growth, the dependence of growth on real investment in plant and equipment, the dependence of investment spending on profits and other sources of saving out of current income.

7. the existence of market imperfections which may justify government intervention to improve the performance of the system, but the limited role of government in the economy.

The problem with this neoclassical view of the real world is that it is a story, generally believed by most economists, but hotly contested by heterodox economists. As important, in developing its analysis of abstract market economies, it isolates economics from the history of capitalist development, so that neoclassical economics can offer little help in understanding that development. Related to this point is the narrow focus of neoclassical economics which implicitly reduces capitalism to its market exchange aspect, thereby limiting our ability to understand the capitalist era.

Marxist Economics

Marxist economics is not as easily summarized as the neoclassical paradigm. It is not a paradigm in the sense of an accepted body of theory and research techniques taught and used in an academic profession. It encompasses a political movement

as well as an area of scholarship; and Marxists have traditionally disagreed with each other and with Marx, so that there have always been divisions within the ranks. These divisions have created a vast scholarship interpreting Marx, adding to Marx, moving beyond Marx.

Robert Heilbroner, in his very insightful book, Marxism, For and Against, defines Marxist thought in terms of a common set of premises. First, is a dialectical approach to knowledge which Heilbroner says "is revealed in a view that considers the innermost nature of things to be dynamic and conflictual rather than inert and static; a view, therefore, that searches within things for their 'contradictory' attributes. Second, is a materialist conception of history, which Heilbroner describes as "a perspective that highlights the central role played in history by the productive activities of mankind, and that therefore locates a principle motive for historical change in the struggle among social classes over their respective shares in the fruits of production." Third is a general view of capitalism which starts from what Heilbroner calls Marx's "socioanalysis," an inquiry into the hidden reality of capitalism to uncover the "secrets" which make capitalism understandable. Fourth, is a commitment to socialism and a belief in the "'unity of theory and practice,' a belief that the application of Marx's methods of analysis will not only shed light on the past but will serve as a guide to the creation of a socialist future, a future consciously made by mankind for its own fulfillment." [Heilbroner, p. 20-21].

These ideas are elaborated on in the following summary of Marx's analysis, the basic foundation for contemporary Marxism.

Scope and Focus of Analysis

Marx described his project as the discovery of the laws of motion that regulate the origin, existence, development, and transformation of capitalism. Heilbroner points out that this essentially historical objective not only involved the "explorations or prognoses of various tendencies of the system, including its ever-sharpening contradictions and class conflicts." More important, and less understood, it also involved "his exposure of the capitalist mode to that penetrative criticism I have called socioanalysis - the historically oriented, dialectically based dissection of the particular institutions and beliefs of capitalism. For it is from the hidden essence of capitalism ... that its motions emerge." [Heilbroner, p. 94]

Purpose and Usefulness

Marx's objective was to discover and expose (1) the exploitative nature of capitalist production, (2) the forms of class struggle, and (3) the fetishistic character of bourgeois economics, its preoccupation with exchange value which is a one-sided analysis which captures only appearances and hides the

essential character of capitalist social relations. He considered such analysis the essential scientific foundation for for working class economic and political action.

Marx's penetrating analysis is also useful to non Marxists. Heilbroner attributes the continued survival of Marxism to Marx's method of inquiry which, Heilbroner says,

> imposed his stamp indelibly on the world. We turn to Marx ...not because he is infallible, but because he is inescapable. ...His contribution was the discovery of an unsuspected level of reality beneath the surface of history, above all beneath the history of the period we call 'capitalism.' What Marx invented ... was a mode of inquiry to reach that buried reality, a mode we may call socioanalysis.

Marx taught us, through his critical, dialectical analysis how to expose

> misperceptions the system imposes on those who have not learned to penetrate its facade, and who therefore remain at the level of its surface manifestations. Marx's first purpose is to show how the everyday concepts by which we seek to elucidate society - concepts such as "labor" or "capital" - are, in fact, deceiving outward appearances that we must learn to pierce, if we are to understand the actual processes of social existence. We read Capital, therefore, not merely to discover how capitalism works, for Marx's explanation, though brilliant, is certainly imperfect, but to learn what capitalism is, the hitherto unposed question that Marx answers in a profound and unforgettable way. [Heilbroner, p. 15-18]

Assumptions about Society and Social Change

For Marx, capitalism is a transitory stage of human history, a mode of production (way of life), dominated by capitalist class relations, and capitalist exploitation of workers through capitalist control of production.

Marx's theory of social change is based on a materialist conception of history, that humans create their own history through social production. According to Marx, historical development is a progression of epochs, each distinguished by a particular mode of production based on the level of technology and division of labor (the forces of production) and a corresponding set of class (social) relations of production. For any mode of production, the development of the forces and relations of production forms the foundation of social life. Class society emerges with the production of a surplus over subsistence in which the productive classes are exploited by nonproducing classes who control the surplus. Marx characterized

European historical development as moving from primitive communism, through ancient slavery, feudalism, to capitalism.

The transitions from one mode of production to the next is propelled by class struggle, which is always violent, based on growing contradictions between the developing technical forces of production which require class relations different from those in existence. Heilbroner comments that the distinctive character of Marx's materialist interpretation of history comes from his fusion of a materialist starting point and a dialectical conception of the process of historical change. [Heilbroner, p. 68]

Assumptions about Human Motives and Behavior

Marx's materialist conception of history is based on a view of humans as conscious, goal-oriented social beings who develop as persons in society through their own social production. Human needs and productive powers develop with the social division of labor which increases human productivity and interdependence. An individual's consciousness, values, motivations, and behavior are affected by their class position; and in class society, particularly in capitalist society, people live in a state of alienation - a disjunction between their actual life work and their species powers.

Marx modeled individual actions as based on class position and forms of class conflict. For instance, the capitalist, is "capital personified" performing the acts necessary to capital accumulation. Workers' freedom of choice is highly circumscribed: consumption patterns are mainly determined by subsistence requirements, and the ability to work is often determined by the capitalists' decisions to hire. Marx assumed that workers would become active participants in history with the development of working class consciousness, which would develop as a rational response to exploitation and alienation - experiencing the contradiction between their actual life activity and their species powers.

Unit of Analysis and Analytic Procedures

In contrast to bourgeois economics, Marx's unit of analysis is capitalism as a whole seen as a continuous, anarchic, contradictory process. Marx's view of the universe as inherently changeful, is a relational view, a process view. Thus, there is no unit to analyze, only relations and processes.

Marx's method of analysis is dialectical, critical, involving incessant querying [Heilbroner, p.31] to understand the process and nature of the qualitative changes inherent in capitalist development. Marx called the changefulness located within capitalism, contradictions, "the unstable coexistence and successive resolution of incompatible forces." [Heilbroner, p. 35]. His objective was to identify the fundamental

contradictions and develop their full implications. In Capital, the starting point for the reader is the analysis of the dialectical nature of commodities, the simple unit of production and exchange. Marx shows their contradictory nature, which creates the major contradiction of capitalism - that commodities are a unity of opposites - they are both physical entities, use values, and social relations, exchange values.

The Nature of Capitalism

Capitalism is a system of capital accumulation based on commodity production - production for exchange and profit - based on a system of wage labor. Marx models capitalists as capital personified, the human agents which carry out capital accumulation. Capitalists own the means of production and hire workers who must sell their labor power because they have not control over means of production or means of subsistence. Marx's theory of surplus value identifies the source of the surplus and of profits in the exploitation of workers during the production process. Value is created in production by workers who receive wages equal to the value of their labor power, the cost of subsistence, rather than the value of what they produce. The surplus value produced belongs to the capitalist whose money capital finances the production process. The source of surplus value comes from the labor process but is realized by the capitalist through exchange. The capitalist pays out less value in wages to workers than the value workers produce. This exploitation is not evident to bourgeois economists who restrict their analysis to the market exchange process and attribute profits to capitalists' ability to compete successfully in markets.

Surplus value created by workers is the source of profits, but also of interest and rent. Surplus is created by "productive labor" producing commodities. In capitalism other nonproductive enterprises develop in commerce and finance to speed up the process of exchange and the circulation of capital. But these sectors of the economy, along with most government agencies, are unproductive in that they do not create surplus, but, rather, use it up.

Marx's theory of exploitation is crucial to his theory of capitalist development. It is through control of the labor process - increasing the work day and the productivity and intensity of labor - that surplus value can be increased. Capitalist attempts to increase the rate of exploitation promote worker resistance, which, in turn, induces capitalists to find more effective ways to control the labor process, often through more mechanization and automation.

According to Marx, capitalist competition, their drive to accumulate capital, creates contradictions in a system of unregulated market exchange because of the dual (dialectical) nature of commodities. They are both useful objects to be

consumed in the process of reproducing the material needs of the society, and they are exchange values representing part of the socially produced value. This "value" or embodied labor regulates prices. Commodity prices reflect the magnitude of value or socially necessary labor used to produce the commodity. Each commodity is a social product in that its production is dependent on a complex social division of labor that determines its labor cost. Marx sees contradictions in capitalism because, for the system as a whole to create a steady accumulation of capital over time, it must also create just the right combinations of different use values to generate the growth in capital from year to year. These requirements of "expanded reproduction" become ever more problematic as the system develops because of the developing forms of class struggle between workers and capitalists.

Capitalist Performance

For Marx capitalism is synonymous with capital accumulation, which means both quantitative growth and qualitative development of the forces and relations of production. That is, this mode of production is a tremendous engine for economic growth and for continual revolution in the methods of production. Tt is also inherently unstable and anarchic; the law of value, Marx said, asserts itself only as a blinding average. Market forces operate only chaotically, not as a process of equilibration. Capitalist development proceeds through periodic booms and busts because of the tendency toward over production and under consumption. Periodic economic crises destroy capital (bankrupt businesses) and bring about the necessary restructuring of the economy.

Marx's summarized his basic predictions about the general development of capitalism in his tendency laws; these laws are the most questionable and controversial part of his theory. First, is his law of absolute capital accumulation which states that the same forces promoting capital accumulation lead to pauperization of the marginal labor force and immiseration for the working class in general. He predicted that this objective relative deterioration in the living and working conditions of workers would create growing class consciousness among workers through their struggles with capitalists, resulting in the development of a working class "for itself" capable of acting effectively for class interests. Second, is the tendency law of the declining rate of profit based on the continual rise in the organic composition of capital (increasing capital intensity). This is a tendency law, because it emerges only out of the crosscurrent of conflicting forces, which makes it impossible to make mechanical predictions.

Marx also developed predictions about the changes in the inner workings of capitalist competition which change the structure of capitalism over time. Heilbroner refers to this category of laws of motion as micro-movements, changes within the institutional arrangements. Foremost among these tendencies is

the tendency toward concentration and centralization of capital created by and creating periodic business crises. Another is the process of uneven development in capitalism - the coexistence and integration of productive sectors operating at different levels of capitalist development employing different forms of exploitation. Another is the continual development of commercial and financial capital to speed up the circulation of capital in order to increase the rate of surplus value. While necessary to capital accumulation, expansion of commercial and financial enterprises require larger and larger expenditures of "unproductive labor", creating an internal limit to capital accumulation. Another result of capital accumulation developing at an ever more frenzied pace, is continual geographic dislocation as capital becomes ever more mobile. Marx described this tendency as capital's annihilation of space with time," the continual development of productive forces to speed up transportation, communication, and control. Finally, capitalism means the development of a world market and the integration of all economies into the capitalist nexus.

Treatment of Economic History and Noncapitalist Societies

Marx's project was historical, to uncover the underlying forces/contradictions propelling social evolution in the capitalist era. Marx considered capitalist development a process of uneven development within a developing world market. Thus feudal, tribal, asiatic modes of production can coexist, but are more-or-less integrated into the world system. The analysis of the world capitalist system in terms of imperialism and center-periphery categories has been a major thrust of Marxists scholarship in the 20th century. Marxist historians have revised European history to explore this history in terms of capitalist development.

Insights Useful in the School History Curriculum

Clearly, it would be helpful to the curriculum to incorporate generally agreed on parts of Marx's analysis of capitalist development into the curriculum. Surely, it is possible to adopt some of the obvious points of Marx's analysis without turning into a Marxist, for his major insights illuminate and deepen our understanding of capitalism, the historical development of capitalism, the import of capitalist development to every day life, the all encompassing nature of the world economy. The intellectual problem of doing so involves identifying those insights which are generally accepted, and in finding a way to discuss ideas related to class conflict and domination in an acceptable way in a capitalist society.

Here are some of the major insights:

1. Capitalism is a system of capital "accumulation", not just a system organized around maximizing profits. Students miss the dynamism of capitalism and the seriousness of its problems if

they do not understand the full implications of the capitalist system as driven by the requirements of capitalist accumulation. They need to understand the system as one of a circulation of capital, and the notion of capital as self expanding value.

2. The source of profit and growth is the production of a surplus above the reproduction needs of society.

3. This surplus is produced by workers in the process of production. This recognizes the existence and importance of "exploitation" of workers in the production process, because capitalists control the labor process and own the output produced by workers. Thus, the ability to earn profits is related to the capitalist's ability to control production and the surplus so created.

4. Class conflicts develop out of exploitive situations, or out of struggles over power. In social life change occurs through the working of class conflict.

5. Capitalist development is uneven development. That is, it is a historical process which begins in certain regions and industries and spreads to others as capitalists seek outlets for their capital. Thus, at any point in time, regions, countries, industries co-exist at different levels of capitalist development and integration into the capitalist system. This implies different forms of competition and class conflict coexisting.

6. Capitalist competition is characterized by concentration and centralization of capital rather than by approximations to perfect competition.

7. The mode of production develops a world capitalist market system.

8. The history of Europe from the 12th to 18th centuries should be viewed as a process of primitive accumulation and transformation from feudalism to capitalism.

9. In modern history we should understand the effects of capitalist development in speeding up change, in continually revolutionizing productive forces and the structure of society, in annihilating space with time, in producing a world market.

10. Capital accumulation also means immiseration of working people in some sense.

11. Capitalist crises are part of capitalist development, bringing about the restructuring of industry and competition, creating qualitative changes in the way of life, and making possible further capitalist development.

III Economic History in U.S. and World History Texts

To get some perspective on how economic development in the capitalist era is treated in high school texts I reviewed two texts which were recommended to me as good quality and popular texts:

> in U.S. history, Lewis Todd, and Merle Curti, Triumph of the American Nation. Orlando, etc.: Harcourt Brace Jovanovich. 1986
>
> in world history, Mounir Farah, Andrea Berens Karls, and Carl Max Kortepeter, The Human Experience: A World History. Columbus, Ohio: Charles E. Merrill. 1985

In general, both books treated economic development in the same way. They devote considerable space to describing the process and effects of material progress, mostly in a descriptive way. However, in both texts the unmistakable conclusion to be reached about the causes of this phenomenal human economic progress are scientific discovery and technological developments. Both books, and a second U.S. history I reviewed less carefully, suffer from a technological determinist bias. There is no real linking of technological development to capitalist development. Discussion of capitalist development is virtually absent, so there is no discussion of the influence of capitalist development on science and technology. This failure to interpret and explain economic development in economic terms seems to me to do a terrible disservice to students. Not only does it make this history less understandable and more boring, but it leaves students with less understanding of the underlying dynamics of capitalism and the forces for change in contemporary life.

The following summaries of the two books gives details about the treatment of economic development and the use of economic concepts and insights. They show that there is very little economic analysis of any sort, and that when economic concepts or definitions are included, they are presented as universal definitions to be memorized by students. It is not clear to me what biases account for this inadequate treatment of economic development. But it seems possible that historians, whose training in economics would have come as neoclassical economics, might not see what economics has to offer by way of explaining economic development

Todd and Curti, The Triumph of the American Nation

The authors devote a significant number of chapters (22 or 43) to the description of the development of the U.S. economy and our place in the world economy: our beginnings as part of the British Empire, our revolt against British colonial economic policy, the expansion and integration of the U.S. into a national economy, post Civil War rise of big business and labor unrest,

the development of public controls over industry and the expansion of federal powers of economic intervention, the impact of the Great Depression in creating government effected structural changes in the market system, the development in the 20th century of the U.S. as the world political and economic power.

In the early parts of the text I was struck by the failure to provide an adequate context for understanding American colonialization. The sweeping economic and social changes of the 16th and 17th centuries are referred to but not really described or emphasized. The settling of the American colonies and the British - French colonial rivalry is not discussed in the context of British mercantilist policy. In a later chapter when mercantilism is finally introduced it is defined in the present tense as, mercantilism is..., which makes it into an abstract, universally valid concept rather than a description of an historically specific policy.

Throughout the book, discussions of economic development are invariably linked to technological and scientific development. In chapter 11, "Gaining Prosperity and Respect," the authors describe the development of the factory system in textiles as part of the industrial revolution. They mention capitalists as the investors who hope to make profits who finance the factories, but they do not link the industrial revolution with early development of industrial capitalism. Similarly, in chapter 22, "Growth of American Industry," the industrial development which occurred after the Civil War is discussed in terms of technological change - changes in transport, new inventions, new sources of energy. Business "consolidation" is mentioned, but the section is mainly an opportunity to introduce students to more economics vocabulary and to teach them about types of business organization. There is no discussion of the changes in market forces, the development of national product markets, etc., which account for the "consolidations." In a later chapter, the authors do mention the development of national product markets, but they do not use this as a major explanatory factor. Again, in chapters 39 and 43, discussing the post World War II era, the authors attribute the fast pace of change to scientific and technological advancement.

The text discusses economic panics, booms, busts, recessions, as they come along, but does not give students any sense of business cycles as a unique characteristic of capitalist society. The panic of 1819 is discussed as caused from over speculation, as if the authors were talking about the 1988 stock market crash instead of the first panic in U.S. history! Similarly, in the discussion of Van Buren's refusal to intervene in the 1837 depression, his reaction is not discussed in the context of the accepted laissez faire policy of the time. Even in the description of the 1920's and 30's, there is still no historical perspective about business cycles, no hint of the the 1930's depression as a crisis of capitalism.

Although there are many opportunities to do so, there is no telling of the dramatic story of the tumultuous capitalist economic expansion and its effects on market competition, the structure of industry, the demand and supply of labor, class conflict. Progress just happens: people make scientific discoveries, invent new products and new techniques of production, and there are capitalists who invest in new ventures in the hopes of earning a profit. Meanwhile, as time goes on, native Americans, blacks, women and hispanics get more and more interested in participating in American life.

Farah, Karls, and Kortepeter, <u>The Human Experience: A World History</u>

This book does a creditable job of describing the economic development of Europe in terms of the decline of Feudalism, the rise in trade and the expansion of town, the conflict between feudal lords and burghers, the Renaissance and the new social order in which wealth and ability become more important than titles and landownership, etc. It describes capitalist development but does not name it. Again, it describes at least some of the more important kinds of class conflict in this development, but it does not give it a name. In fact, throughout the book, the authors tend to use the phrase, "social groups", to signify "classes."

The book tends to describe this era of capitalist development in technological determinist and political terms. In chapter 12 in discussing the economic needs during the mercantilist period, the authors describe these needs in terms of the monarch's need for taxes to pay for his court and for wars. It sounds as if the monarch instigated foreign trade. The authors say, "before long, the competition in trade and exploration was fueled by other motives. One was profitability..." [p. 279] The authors describe mercantilism adequately, but simplistically and very blandly:

> "gradually, a system based on the belief that the goal of business was to make profits took place. Enterprising individuals known as entrepreneurs combined money, ideas, raw materials, and labor to make goods. Profits earned from the sale of goods were used to expand the business and develop new ventures." [p. 281]

They collapse a lot of history into a paragraph and give none of the richness or violence of the transition. They make no distinction between merchant and industrial capitalists, therefore, cannot describe the uniqueness of industrial capitalist inventiveness in revolutionizing the production process.

In chapter 15 on the French revolution, the authors do use

the term "class" along with that of "social groups", and distinguish between the classes in the third estate, the bourgeoisie, artisans, and peasants. They explain the belief in freedom and social justice of the bourgeoisie, but they do not discuss them as a capitalist class. They do not connect the wrenching changes in all areas of life which come about with the rise in power of the bourgeoisie.

Of course, capitalist development is described in terms of the industrial revolution which emphasizes changes in production due to technological innovation. In their discussion of capitalists, they point out that one of the elements any country needs to industrialize is capital! Capitalists played an important role in financing the industrial revolution (it is not clear what they did before the industrial revolution!). Interestingly, although capitalists are treated completely ahistorically, the discussion of the development of the working "classes" is quite good and the authors even mention the disintegration of family life resulting from the growth of wage work.

The authors do little to inform students about the economic dimension of contemporary society. Their discussion of the present and future is mostly in terms of world politics. The economic development aspirations of developing nations are described in terms of rising expectations. There is little or nothing on the importance of a world capitalist system. While it is probably true that the final chapters in a world history text are never "covered" in class, it seems essential somehow to orient students to the economic realities of their world.

What startled me in reading these books was the tendency to take the history out of history. By neglecting the process of historical development of capitalism, the authors take out much of the historical drama. More important, they hide the process of economic development, which, in my mind, keeps youngsters from understanding the present in terms of the past.

IV Suggestions: Teaching about World Capitalist Development in High School History Courses

By way of summary, if other texts are similar to those I reviewed, students are being cheated and misled in their history courses. They are not learning about the fundamental nature of the world they are living in. History courses ignore an important strand of history, the long period of transition from feudalism to capitalism as the development of the capitalist mode of production, the nineteenth and twentieth century history as a process of monopoly and world capitalist development.

It might be argued that it is not practically feasible to introduce a Marxist orientation into texts meant for the public schools. This reasoning (prejudice) might explain the failure to teach about capitalism in current texts. However, this is a

stupid reaction. Recognition of capitalist development as a major thrust in human evolution is a common place. Recognition of the exploitation inherent in capitalism is almost as commonly accepted. Capitalist exploitation can be downplayed in texts. But major Marxist insights can be retained, if not labeled as such. Marxist thinking, as Heilbroner points out, has profoundly influenced our view of the modern world and its development. Textbook writers should find a way to incorporate these insights into their texts.

First, then, it is essential to rewrite U.S. and World history to incorporate the Marxist insights listed in section II of this paper. To repeat, except for the theory of exploitation, most of these views can be introduced without raising eyebrows. Their introduction will enliven the history and provide opportunities to bring more substance and more controversy into the curriculum. In particular, in modern U.S. history courses, students need to understand the changes in the U.S. economy in relation to the restructuring of world economy. To prepare themselves for adulthood they need to understand the changing structure of the labor market, the effects on workers of the operation of segmented labor markets. U.S. history courses could easily incorporate the history of these labor market developments. They are more and more widely accepted in the economics discipline and are carefully worked out in Gordon, Edwards and Reich, Segmented Work, Divided Workers (Cambridge University Press, 1982), and in Richard Edwards, Contested Terrain: The Transformation of the Workplace in the Twentieth Century (Basic Books, 1979). Marxist classics such as Harry Braverman, Labor and Monopoly Capital, (Monthly Review Press, 1974) provide profound insights into the labor process.

Second, it is important to recognize the limitations of neoclassical economics in providing insights into economic development. It might even be the case that the failures of current high school history texts can be attributed to the tendency of neoclassical economists to ignore capitalism and to describe advanced capitalist economies "market" or "mixed" economies.

Third, teachers and textbook writers need to learn more about the heterodox traditions in economics. In particular, they need to suspend disbelief long enough to study Marx seriously. I would suggest Robert Heilbroner's book, Marxism: For and Against (W. W. Norton, 1980) as a good starting point. They could then go on to read history by Eric Hobsbawm and E. P. Thompson to see how Marxist historians treat the capitalist era. They can read the in the area of world systems studies. They have an obligation to know this literature and to incorporate it into their writing and teaching.

TWO TRADITIONS IN ECONOMICS

Basis for Comparison	Neoclassical Paradigm	Marx's Analysis
Focus & Scope	Market exchange: price determination, resource allocation, macroeconomic stability & growth.	Laws of motion of capitalist development and its super session, through explaining the source of exploitation and the contradictory nature of capitalist development.
Purpose and Usefulness	(1) ideological function of depicting market economics as self adjusting, efficient, fair; (2) training in "rational" economic choice; (3) public policy analysis & development.	(1) to provide the scientific foundation for working class action by exposing the exploitive nature of capitalism, forms of class, struggle, fetishistic character of bourgeois economics (2) for non-Marxists, to appreciate the value of "socioanalysis" - dialectical thinking which searches for a deeper understanding of reality; to gain insight into what capitalism is - a process of historical development through capital accumulation.
Assumptions about society and social change	Society as a system of exchanges between individuals made necessary by scarcity and specialization which increases productivity and inter-dependence.	Capitalism is a stage of human history, a mode of production by capitalist class relations. A materialist interpretation of history as a progression of modes of production and a dialectical conception of historical change based on working out contradictions through class struggle and capitalist competition.
Assumptions about human motives and behavior	Based on utilitarian psychology and ethics: people seek to maximize pleasure and should do so; therefore rational actions result in maximum pleasure for the individual.	We are conscious, goal-oriented social beings, constrained by the social relations of production and therefore alienated beings, but struggling to achieve our species powers within our daily existence. Individual actions are constrained by class position. Working class consciousness develops with class struggle.

Basis for Comparison	Neoclassical Paradigm	Marx's Analysis
Unit of Analysis and Analytic Procedure	The individual decision maker. Hypothetical deductive theorizing assuming methodological individualism to construct single exit (unique) solutions to problems of constrained maximization - constructed as mathematical models.	Capitalism as a whole seen as a contradictory process; therefore analyses social relations in their contradictions. Dialectical, critical analysis which involves incessant questioning. His point of departure in capital was an analysis of the contradictory character of commodities which reflects the basic contradiction of capitalism: production for profit and for use.
The Nature of Capitalism	Its not capitalism, but a mixed market system, a decentralized competitive market economy where individuals, seeking their own gain promote the general welfare. A circular flow economy driven by individuals' consumption desires and business's desires for profits which promote growth, full-employment, justice, efficiency.	A system of commodity production based on wage labor, of capital accumulation based on exploitation which is hidden from view because workers exchange their labor power for wages. Exploitation occurs because capitalists control production and own the output. Workers create more value than the value they earn, creating surplus value which becomes capital. The exploitive nature of work is the basis of class struggle and technological development. Crises are inherent because of tendencies of over production and under consumption, and the restructuring during crises creates conditions for renewed accumulation.
Capitalist Performance	System as self adjusting, a process of general equilibrium, creating Pareto optimality: maximum individual welfare given the existing distribution of endowments. Market imperfections - market concentration, externalities public goods, inadequate endowments - justify government intervention. Disagreement about causes of macro instability.	Inherently chaotic and crisis ridden; the law of value asserts itself as a blinding average. Laws of development: the absolute law of capital accumulation (accumulation creates immiseration), and the tendency law of declining rate of profit. Predicitions about institutional change: tendency toward concentration and centralization, uneven development, expanding demand for unproductive capital in commerce and finance, annihilation of space with time (continual speed-up and geographic mobility), development of a world capitalist market.

Basis for Comparison	Neoclassical Paradigm	Marx's Analysis
Treatment of Economic History and non-capatalist Economies	Applies economics conceptual structure and methodology to analyze different types of economies classified by prevailing form of decision making-into command, traditional and market economies - mainly in terms of efficiency of resource allocation. Promote policies to introduce capitalist - market - mechanisms and incentives. Recognize international trade as an integrating mechanism which promotes growth.	The capitalist mode of production grew out of the feudal mode of production. Capitalism is a historic process of uneven development and capitalism is a world system to be analyzed in terms of imperialism, dependency theory, core-periphery relations.

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